MERCHANT FINANCE LTD

Talk to us first

2015 ANNUAL REPORT

GROWTH | RETURN | STRENGTH | PRODUCTIVITY

Impact through **Lending**

OUR VISION

To be the preferred provider of financial services in the South Pacific

OUR MISSION

We provide innovative financial solutions in ways that:

- Exceed Customers' Expectations
- Safeguard Depositors' Funds
- Maintain Our Corporate Social Responsibility

While preserving the loyalty of our people and maximizing shareholder's value.

After the divesture of their shareholdings in August 1997 by AGC and IFC, Merchant Finance is a 100% Fijian owned corporation. The current shareholdings of the company are held in part by Fijian Holdings Limited (80%) and FHL Trustees Limited (20%) as trustee to Fijian Holdings Unit Trust. Whilst Merchant Finance is constrained by its competitiveness on a price basis, the challenge is to maintain competitiveness through customer service provision and enhancement of existing and new business relationship.

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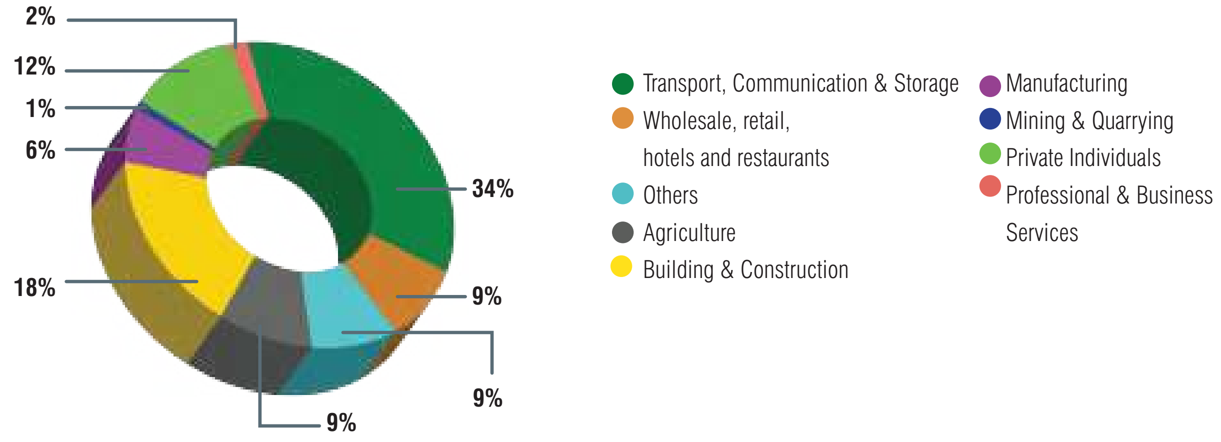

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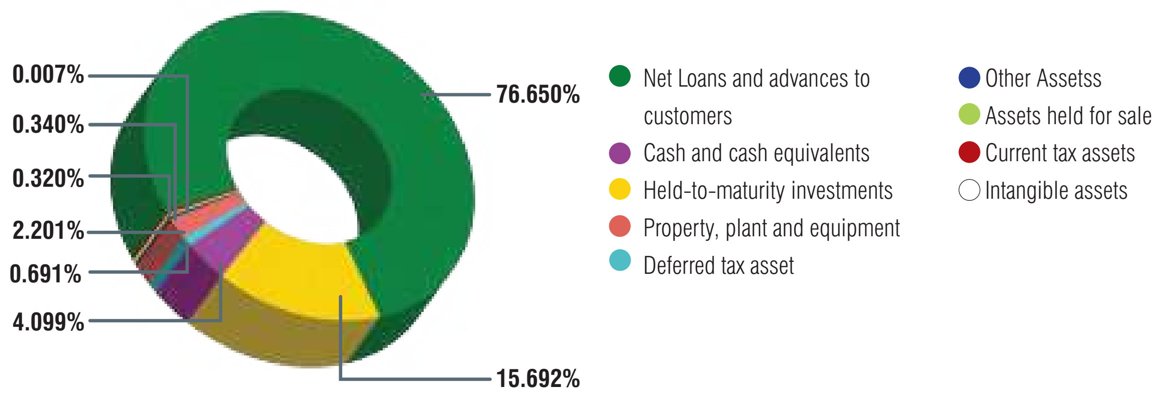

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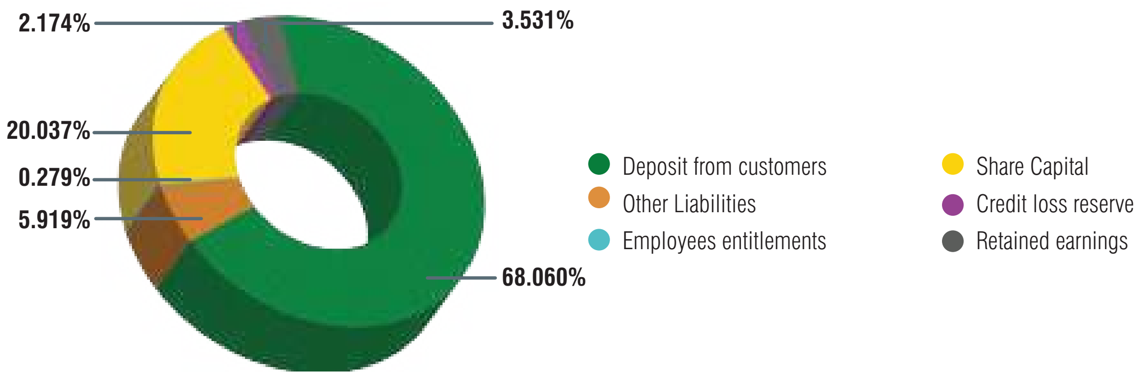

FINANCIAL HIGHLIGHTS

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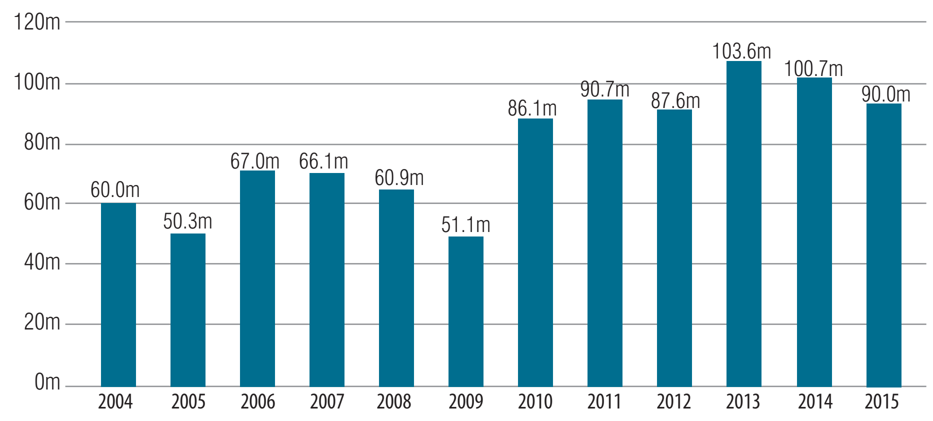

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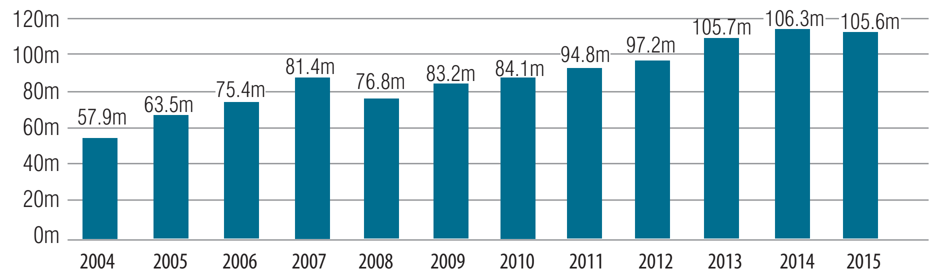

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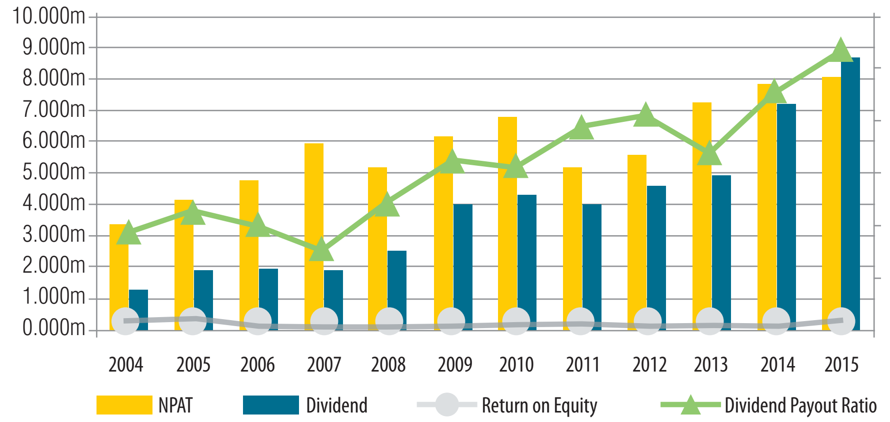

CORPORATE GOVERNANCE

WHAT IS CORPORATE GOVERNANCE?

Corporate Governance is concerned with the rights and responsibilities of a company's management, its board, shareholders and other stakeholders, including those outside a company. Narrowly defined, it relates to the relationships between managers, directors and providers of a firm's capital. With the rise in corporate failures in the last ten years, increasing internationalisation of economies, the growth of large companies, deregulation and globalisation on a global level, and local developments in the Fiji financial sector and the local corporate and business sector, there has been a rise in interest in corporate governance.

In Fiji, the requirements relating to corporate governance for deposit taking institutions are provided for under the Companies Act, the Banking Act, and a corporate governance policy issued by Fiji's financial sector regulator, the Reserve Bank of Fiji, for financial institutions. Financial institutions in Fiji include the licensed banks and credit institutions such as Merchant Finance Limited.

THE CORPORATE GOVERNANCE STRUCTURE WITHIN MERCHANT FINANCE

As with any other companies, Merchant Finance has shareholders to whom it is ultimately accountable. At present, there are only two shareholders. These are: Fijian Holdings Limited and Fijian Holdings Unit Trust (managed by FHL Trustees Limited). Representing the shareholders' interests in the company are directors that they nominate, and appoint after clearance with the Reserve Bank of Fiji. As part of global corporate governance trends, the Board also has "independent" directors. An "independent" director is defined under Reserve Bank of Fiji policy as someone is "independent of management and free from any business or other relationship with" Merchant Finance.

The Board has four Subcommittees that help with carrying out its functions. The Committees are: the Board Asset, Liability & Risk Subcommittee, the Board Credit Subcommittee, the Audit & Governance Subcommittee and the Board Human Resources Subcommittee. Below the Board and Board Committees is the Chief Executive Officer (CEO) of the company. The Chief Executive Officer (CEO) is responsible for the day-to-day management of the company. Whilst Fijian Holdings Limited (FHL) has certain stipulations for the company given that it operates within the FHL Group, Merchant Finance's Board operates independently and is the ultimate authority for the strategic direction and operation of the company.

The company's relationship with other external stakeholders, an element included under corporate governance, is governed by the Board. This covers activities designed to promote a good corporate image for the company as a citizen within Fiji's wider community. As part of this, corporate sponsorships are considered and provided by the company.

WHAT ISSUES ARE COVERED UNDER THE COMPANY'S CORPORATE GOVERNANCE POLICY?

Issues covered under corporate governance are outlined in our corporate governance policy. The policy was developed to ensure the company's compliance with the laws relating to crimes in Fiji, the Companies Act, including the Articles of Association of the company, and the Reserve Bank of Fiji's policies on corporate governance and fit and proper persons for licensed financial institutions. Some topics covered are summarised below.

Composition of Board

The structure of the Board, its composition and procedures for appointing and removing directors are detailed in the company's Memorandum and Articles of Association and also outlined in our corporate governance policy. With regard to the number of Board Directors, at present the maximum number is nine (9).

Selection & Induction of Directors

Directors are appointed on the basis of their professional qualifications, business experience and expertise, as well as their standing in the Fijian community and to meet the Reserve Bank of Fiji's Fit and Proper Policy requirements. The composition of the Board is intended to ensure an optimum representation of business skills and specialists.

Incoming directors go through an induction process in which they are given a full briefing on the company's direction, strategy and operations. They also have an introductory meeting with key executives of the company.

Independence of Directors and Conflicts of Interest

The independence of each director is regarded as important so that he/she may be able to, objectively :

- make decisions on matters that are presented to the Board or its Committees,
- set policy for the company and
- carry out his/her role as a director.

An annual review of the state of relationship between a director and the company is done to ascertain and affirm the independence of each director.

Directors are expected to avoid any action, position or interest that conflicts or appears to conflict with the interests of Merchant Finance. Each director is required to disclose all details about his/her interests. These are recorded by the Company Secretary and tabled at a meeting of directors. Upon declaring a conflict of interest, a director should refrain from participating any further in decisions with regard to that matter. Any change in a director's interests is to be disclosed as soon as practicable to the Board. Once tabled at the Board, such declaration of interests is to be recorded in the minutes of that meeting.

Remuneration Arrangement

The remuneration of directors is determined each year at the Annual General Meeting of shareholders. Each director receives a fixed annual fee as well as a sitting allowance fee for each Board meeting he/she attends.

Board members who sit on a Board Committee are also entitled to the sitting allowance fee for each Committee meeting he/she attends. There is no annual fixed fee paid for being a member of a Committee. The Chairperson of each Committee is not entitled to any special allowance.

Performance Review, Training and Advice

Each director's performance is assessed annually by the Chairperson, or at a time when a director is being considered for re-election. The performance of the Chairperson is annually assessed by our parent company Fijian Holdings Limited. Directors are provided with proper information in relation to the Company before accepting appointment. A director is also entitled to seek any additional information that he/she may require to be able to carry out his/her duties. Each Director has the right to seek independent legal or other professional advice at the Company's expense. Prior approval from the Chairman is required but may not be unreasonably withheld or delayed.

Meetings

Board meetings are normally held each month. Directors are expected to prepare adequately for, attend and participate at Board meetings and meetings of Board Committees.

Delegation of Authority

In accordance with the Board Charter, the Board is allowed to delegate its roles and responsibilities to Committees and management. These are captured in the Charters of each Committee.

The Chief Executive Officer (CEO) carries out his day-to-day work within the delegations and boundaries set for him by the Board. Details on the Chief Executive Officer (CEO) function and his relationship with the Board and Board Subcommittees are contained in the Companies Act, the in-house corporate governance policy, his contract, and detailed delegations of authority from the Board.

Whistleblowing

The company's whistleblowing provisions, within the corporate governance policy, allows employees to voice serious concerns or escalate serious matters on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment. The Policy is intended to address matters including: dishonest, fraudulent, corrupt or illegal behavior; accounting or internal control matters; audit-related matters, including non-disclosure or a failure to comply with internal or external audit processes; improper conduct or unethical behavior; or conduct endangering health and safety.

The policy lays down procedures to be followed in raising a complaint and who the complaint is to be raised with, and the investigation procedures that are to be adhered to when investigating a complaint.

Audit & Reporting

The Audit & Governance Committee is responsible for assisting the Board to substantiate and safeguard the integrity of the Company's financial reporting and internal control processes in the company.

The Committee assesses the compliance of the Company's external reporting, the internal processes and controls that support the external reporting, coordination with the external auditors and ensuring the yearly audits and half year reviews are conducted in an effective manner. The Committee makes recommendations for the appointment or removal of the external and internal auditors, annually assess the performance and independence of the auditors and monitor the coordination of their audits as the scope of the internal audit shall not overlap with the scope of work performed by the external auditors. The external auditors are required to rotate off the audit after a maximum of three years.

Communication and Public Disclosures

Merchant Finance is committed to providing timely, accurate and balanced disclosure of all material information in accordance with the disclosure requirements issued by the Reserve Bank of Fiji. This demonstrates the company's commitment to transparency.

External stakeholders

External stakeholders play an important role in any company and our relationship with them is covered under Corporate Social Responsibility (CSR) in our Corporate Governance policy. We maintain our CSR at our utmost because it improves our community standing or reputation in the public.

CONCLUSION

We take our role as custodian of other people's funds very seriously. Our work is supervised thoroughly by the Board and its professional Subcommittees. Independent directors who are part of the Board provide an added mechanism of oversight. Board approved policies provide guidance and direction to the day-to-day operations and running of the company.

We will continue to review our corporate governance policies and procedures to ensure that they meet best practices in the area and are the best for the type of business we operate in.

SUB COMMITTEE REPORT

REPORT OF THE AUDIT & GOVERNANCE SUBCOMMITTEE

The Audit & Governance Committee is responsible for overseeing the company's audit and compliance activities of MFL.

The Committee members during the financial year are:

Members	Capacity	Status	No. of meetings held during FY15	No. of meetings attended during FY15
Mereia Volavola	Chair-person	Resigned		2
Cama Raimuria	Member	Current (continuing member)		7
Salesh Dayal	Member	Resigned	7	2
Saleshni Warran	Member	Current (continuing member)		3
Joeli Taoi	Chair-person	Current		6

During the year the Committee reviewed and accepted all audit reports prepared in-house, internal and external audit reports and the RBF onsite examination report. The issues highlighted by the reports were addressed by way of introducing the new End of Month Checklist for issues required to be addressed immediately. This was further emphasized by including outstanding issues in the Audit Issues Tracking Register that is sent periodically for updates and implementation.

To strengthen Merchant Finance's compliance framework the Committee recommended training on internal controls for all staffs and approved in-house policies concerning inter-branch transactions and complaints management.

Meetings of the Audit & Governance Subcommittee are generally held quarterly. If necessary, additional meetings may be convened.

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Joeli Taoi
Chairperson (Audit & Governance Committee)

REPORT OF THE ASSET, LIABILITY & RISK MANAGEMENT (ALR) SUBCOMMITTEE

The Asset, Liability& Risk Management (ALR) Subcommittee of the Board is responsible for overseeing all of the company's financial management.

The Committee composition changed in September 2014 according to rotational basis. Members are:

Members	Capacity	Status	No. of meetings held during FY15	No. of meetings attended during FY15
Sefanaia Raiyawa	Chair-person	Resigned		1
Arun Narsey	Member	Resigned		1
Nitesh Lal	Member	Resigned		1
Sowani Tuidrola	Member	Current (continuing member)	5	4
Robin Yarrow	Chair-person	Current		4
Isikeli Tuituku	Member	Current		4
Elenoa Vuniwa	Member	Current		3

During the year the Committee considered issues that relate to the asset and liability management in particular. As part of its Risk Management role the Business Continuity Plan was reviewed and tested in the central branches.

The Committee also reviewed and approved several in-house policies concerning interest rate and Asset, Liability and Risk Management.

Meetings of the ALR Subcommittee are generally held quarterly. If necessary, additional meetings may be convened.

…………………………………………
Robin Yarrow
Chairperson

REPORT OF THE CREDIT COMMITTEE

The Credit Committee is responsible for overseeing the assessment of credit standing and repayment ability of prospective borrowers of Merchant Finance. In addition they supervise the review and implementation of the credit policy and practices, lending decisions above limits delegated to management, and all decisions relating to non-performing loans and provisioning.

The Committee members during the financial year are:

Members	Capacity	Status	No. of meetings held during FY15	No. of meetings attended during FY15
Isikeli Tuituku	Chair-person	Current		2
Joeli Taoi	Member	Current		2
Sowani Tuidrola	Member	Current	2	2
Elenoa Vuniwa	Member	Current		1

During the year the Committee reviewed its Subcommittee Charter, Credit Procedure Manual and the Credit Provisioning Manual to help strengthen the lending and recovery function.

In addition the Committee reviewed the MFL overall credit risk exposure to ensure that it is within market acceptable levels.

Meetings of the Credit Subcommittee are generally held bi-quarterly. If necessary, additional meetings may be convened.

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Isikeli Tuituku
Chairperson

REPORT OF THE HUMAN RESOURCES (HR) COMMITTEE

The Human Resources Committee looks after human resource management, recruitment, remuneration, staff performance reviews, manpower planning and development, and succession planning.

The Committee members during the financial year are:

Members	Capacity	Status	No. of meetings held during FY15	No. of meetings attended during FY15
Emitai Boladuadua	Chair-person	Current		3
Catherine Grey	Member	Current		4
Sakiusa Raivoce	Member	Resigned	5	4
Sakiasi Seru	Member	Resigned		4
Ilisoni Taoba	Member	Current		1
Salesh Dayal	Member	Current		1

During the year the Committee provided oversight on a number of issues which included recommendations on staff recruitment, promotions, increments, bonuses and staff discipline that were presented by Management.

The Committee continued to encourage up-skilling of managers and staff. Some managers and staff are continuing formal and professional qualification at tertiary institutions including the University of the South Pacific and the Fiji National University. Managers and staff also attended a number of short courses in diverse technical areas including risk assessment and risk management.

Meetings of the HR Subcommittee are generally held quarterly. If necessary, additional meetings may be convened.

…………………………………………
Emitai Boladuadua
Chairperson

BOARD OF DIRECTORS

ISIKELI TUITUKU
Chairman
is a Professional Businessman with over 20 years of experience in executive management under the Banking and Petroleum industries across multiple cutlture and geographies. He has extensive experience from having worked for BP SouthWest Pacific Ltd, BP Australia, ANZ Pacific Business, ANZ PNG Ltd and ANZ Kiribati Limited. Mr. Tuituku is currently the Director and Principal of QUIBIT Fiji Limited.

EMITAI BOLADUADUA
is a Retired Diplomat with 38 years in the Civil Service, 26 which were spent in the Ministry of Education. He was Permanent Secretary in 4 Ministries: Information & Telecommunications, Home Affairs & Immigration, Education, and Foreign Affairs & External Trade. He was Chairman of the Cakaudrove Provincial Council for 6 years.

ROBIN YARROW
(Independent Director)
is a retired civil servant having served Fiji for 30 years. He was the Permanent Secretary for the Ministry of Agriculture, Ministry of Foreign Affairs and served as Ambassador to Japan, China and Korea. He was a Director for RBF and sat on other Government Boards and Committees. Mr. Yarrow is currently a member of the Boards for the National Trust of Fiji, NatureFiji, Vodafone Fiji Ltd and Fiji Red Cross Council.

JOELI TAOI
(Independent Director)
is an Industry Expert with over 20 years in international shipping, warehouse & distribution and trade facilitation advisor. He currently serves in the Board of Fiji Export Council, Fiji PNG Business Council and former Board Member of the Textile Clothing & Footwear Industries of Fiji, Fiji Indigenous Business Council. Mr. Taoi is the Managing Director for Freight Services Fiji and Papua New Guinea.

NOUZAB FAREED
is a Chartered Accountant (Fiji), Chartered Certified Accountant (UK), Chartered Management Accountant (UK), Chartered Marketer (UK), Fellow of CPA (Australia), Fellow of FINSIA and Graduate of GAICD. He is a licensed Investment Adviser (Fiji), Certified Fraud Examiner (USA) and the President of Fiji Institute of Accountants and the Fiji-PNG Business Council. Mr. Fareed is the Group CEO of the FHL Group companies and has 24 years of extensive experience in Corporate Finance and Investment Banking.

SOWANI TUIDROLA
was formerly the General Manager of FHTML and is now the General Manager for Pacific Cement Limited. He has 16 years of experience from Fiji's Sugar Industry prior to joining FHL Group. Mr. Tuidrola has been with the FHL Group for 12 years with experience in Managed Investment Schemes and was a licensed broker/dealer. He served on FHL Subsidiary Boards, the Data Bureau Company Ltd and Pacific Green Industry Ltd.

ELENOA VUNIWA
is the General Manager for FHL Fund Management Limited. She is a licensed Broker/Dealer Rep and has been with the FHL Group for 8 years. Mrs. Vuniwa was also involved in Business Development, Investor Relation and Investments and served on various Boards and Committees in 8 FHL Subsidiaries.

MANAGEMENT TEAM

NAPOLIONI BATIMALA
General Manager

DINESHWAR LAL
Manager Suva

SEMANTA NAIKER
Manager Credit

BOBBY DAYAL
Manager Nasinu

ANIL PRASAD
Manager North

LEONORE NAIVALUWAQA
Manager Nadi

LOUISA JOHN
Human Resource Officer

PIO NATANIELA
Manager Finance & Administration

BOBBY ALI
Manager Lautoka

ALIPATE RADRODRO
Assistant Manager Corporate

BEATRICE MAR
Risk & Compliance Officer

OSEA NAWALU
Team Leader Rural

SINU TABUALAWA
IT Administrator

SULIE VUNIBAKA
Business Development Officer

CHAIRMAN'S REPORT

Merchant Finance registered another record profit before tax of $10.02 million for the financial year compared to $9.8 million recorded in the prior year.

During the year, despite the record profit Merchant Finance continued to be well capitalised and met all prudential requirements set by the Reserve Bank of Fiji.

Given the challenging business conditions in Fiji, Credit risk continued to be closely monitored by the company. Where necessary, the company made provisions for specific loans and also general provision cover for the whole loan portfolio.

ECONOMIC BACKGROUND

Based on the Reserve Bank of Fiji's figures the economy is estimated to have grown by 4.5% for 2014. Main sectors that contributed to growth during the year were information & communication, wholesale & retail trade, financial & insurance activities, agriculture, construction and manufacturing.

Inflation stood at 0.8% in June 2015 compared to 1.1% last year. The low inflation rates are the results of subdued commodity prices internationally and free tuition programs for primary and secondary education by the Government.

The Banking Industry saw the transition of Home Finance Company Limited from a credit institution into a commercial bank in March 2014. This led to a significant reduction of the market share held by Credit Institutions in the Financial Industry and in addition a new competitor Kontiki Finance Limited emerged.

Competition continues to be very strong in this sector as commercial banks play in what is no longer a traditional space for Credit Finance institution. We expect in the next years this will remain as liquidity in the market remains strong and economic conditions remain resilient for new business to grow and existing business to grow further. We have to look at our traditional sectors like Transport and Agriculture and determine strategies that allow us to be more competitive in this sector.

Strong activity is generating from areas like Vanua Levu taking advantage of the tax free zone activities and wherever there has been large infrastructure spending by the Government we expect more customers to follow and make use of access to trade and provision of much needed services to community along the way. Our team of expertise is very active and we continue to rely on face to face visits to understand what is required at finance level.

CHALLENGES IN THE FIJI FINANCIAL SECTOR

For Merchant Finance the biggest challenge is to remain liquid and be in total compliance with our Reserve Bank of Fiji (RBF). We will continue to ensure that our operations are transparent, policies reviewed and updated to meet the global demand for Financial institution to comply with external and internal requirements particularly in areas such as Money Laundering, Risk Management and Credit Writing. This requires a great deal of effort from our systems whether it's our IT or back office and front office. The Board is continuously focused on ensuring that legacies do not become a stumbling block to progressive improvement or where it is required a complete overhaul.

Liquidity as expected remains a top priority as the market becomes increasingly competitive. There are some attractive rates offered in the market by newcomers and will likely to continue for some time. This in turn increases cost of funds and likely to lead to competitive shrinkage of yield.

Credit financiers live on a single source of liquidity which is term deposits unlike our bigger commercial banks that do have current accounts and non-interest bearing deposits. Term deposits are highly vulnerable to external shocks like the 2009 devaluation caused by worst global financial crisis in 2007/08. These are shocks that as credit financiers we need to be well aware of and manage when they occur. It calls for the Board to be vigilant and explore ways to mitigate these risks.

STRATEGIC DIRECTION

Our strategy remains relevant and we took some time in focusing on what we need to do to capture the opportunities as we identify them. Our focus on developing our people is paramount. We are proud that our CEO Mr. Batimala who recently completed a series of financial qualifications remains committed to Merchant Finance for the next term of three years that takes it to 2018. It is critical that our middle management and junior staff remain the most qualified and well trained for their posts. Also critical is that they have access to the smartest tools in the business and remain confident that we can service our customers well.

The 2015 financial year was another milestone with record profit achieved by the Management team and committed staffs under the guidance of the Board and Subcommittees.

As credit financier our customer's credit rating is key to our business. We will continue to be the most trusted financial partner to most of our clients who have been with us for years and by that we pursue to have the biggest share of wallet in their line of credit. Therefore our system of capturing information and assessing credit application must remain robust and turn-around time is very critical indeed. Converting historical relevant data and current needs of our clients to meet their future growth is most critical and that is how we will compete.

New products and services are derived from this intimate knowledge of each sectors of the economy and with it intimate knowledge of customers who build their business in our economy. We will introduce relevant products and much improved service that increases our relevancy and through it our mutual growth and sustainable business with our partners.

CORPORATE GOVERNANCE

In the view to strengthen governance practice Merchant Finance reviewed the corporate governance policy. The policy review was done to emphasize the importance of good governance and elevate the existing governance framework. This policy is availed to all of our staffs and is mandatory for our newly recruited staffs to read and understand our stand for good governance.

The company continue to engage professionals and technical experts to serve within the Board and its Committees. The Board Committees are: the Audit and Governance Committee; the Asset, Liability and Risk Committee; the Credit Committee; and the Human Resource Committee.

In accordance with good governance all Members of the Board and Subcommittees declared their interests and acknowledged the special Code of Conduct for Board Directors and Committee Members.

The company continued to build capacity in corporate governance by sending all Board Directors and Merchant Finance Managers to attend the Company Directors Course facilitated by the Australian Institute of Directors.

CONCLUSION

The 2015 financial year was another milestone with record profit achieved by the Management team and committed staffs under the guidance of the Board and Subcommittees.

I am confident that our commitment will improve our performance for stakeholders and customers.

I wish to thank the Board of Directors; those that completed their terms during the year, those that joined us and the others that have continued. In addition I thank the Chief Executive Officer, management and staff of the company for their hard work and commitment to Merchant Finance.

Mr. Isikeli Tuituku
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

FINANCIAL PERFORMANCE

Merchant Finance, again registered another record profit before tax (PBT) of $10.02 million for the year ended 30 June 2015 and increase of 2.2% from $9.8million recorded at 30 June 2014. The company profitability was driven by the combinations of excess liquidity that led to the reduction in deposit interest rate, improvements in loan impairment and strategic cost cutting measures.

Our total assets were recorded at $132.3 million on 30 June 2015, a reduction of 7.3% from $141.93 million of last financial year. The loan portfolio remained constant around $101 million throughout the year. Competition from other financiers via loan buy-outs continues to be a norm. The Cash & Cash Equivalents balance experienced a $20.75million reduction due to reclassification into Held-to-Maturity investments.

The high balance of investments held to maturity reflects the increased level of liquidity and a recurring challenge faced across all financial institutions of finding appropriate avenues to invest those funds to earn a profitable return from them.

Our liabilities in the Term deposits fell by $10.7 million (11.9%) from $100.7 million in 2014 down to $90 million in 30 June 2015. This was the result of a restructure in our term deposit ratios where we tried to focus more on Retail deposits and convincingly requested some of our Corporate depositors to redeem their investments.

POLICY, HUMAN RESOURCES AND CAPACITY DEVELOPMENT

All staffs of Merchant Finance are provided with in-house training and are encouraged to attend professional workshops. Current succession plans in place continue to ensure that the training programs attended by staffs will assist them in enhancing their skills and broadening their knowledge of all aspects of this competitive financial industry. Induction programs for new staffs are favourably & professionally structured to assist all new recruits understand the company, its culture, its strategies and importantly its future plans.

During the year our staffs attended Anti-Money Laundering training to strengthen the company's stance against money laundering and also assist the RBF on its supervision of the economy.

Empowerment and added responsibilities were assigned to selected staffs where suitable, for higher positions which were vacant. During the year there were new promotions for Manager Credit (Semanta Naicker), Manager Nadi (Leonore Naivaluwaqa), Manager Finance & Administration (Pio Nataniela) and Assistant Manager Corporate (Alipate Radrodro). In addition there were new recruitments of our new IT Administrator (Sinu Tabualawa) and our in-house Legal Officer (Ema Lagilevu).

Staff performance is measured & closely monitored by way of six monthly formal appraisals. Given the record performance noted last financial year, all staffs were rewarded bonuses in recognition of their efforts and contribution.

SERVICES AND MARKET SEGMENT

The company continued to serve its target market segment with vehicle financing. However competition in this segment with commercial banks and other credit institutions was very stiff.

Excessive liquidity in the economy continues to push all financiers to reduce their loan rates and ensure ease of loan conditions to attract customers. Given the liquidity factor, our lending rates have been reduced for customers with a view to passing on the benefits of the reduction in our cost of funds.

To maintain and strengthen our position as the leading Credit Institution in Fiji our new strategic plans in place will ensure our products and services are always marketable, innovative and profitable. After implementing the first year plans, we are ready and prepared to explore this ever evolving competitive environment.

Our total assets were recorded at $132.3 million on 30 June 2015, a reduction of 7.3% from $141.93 million of last financial year.

GOOD CORPORATE CITIZEN

Merchant Finance continued its corporate social responsibility initiatives by participating in financial literacy awareness, trade expositions, street appeal and donations. During the year we took part in the following activities:

- Financial Inclusion initiative by Reserve Bank of Fiji – Rakiraki Expo and Suva Hibiscus Festival
- Asco Motors Trade Show – Kadavu and Bua
- Naitasiri Trade Show – facilitated by the Naitasiri Provincial Council
- Namosi Trade Show – facilitated by the Namosi Provincial Council
- Visited and donated to the children at St Christopher Home
- Organized a Street Appeal for the Fiji Society for the Blind
- Hosted a breakfast for the Fiji Society for the Blind
- Donation to the Savusavu On Sale Open Day
- Donation to the Festival of the Friendly North Carnival
- Supported sponsorship for 2015 Bodyworks Bodybuilding and Physique Championship

In contribution to economic development Merchant Finance provided employment under the internship program for fresh degree graduates. These interns were given on-the-job training to gain work experience benefitting them in the long run while assisting the delivery of our operations.

FUTURE OUTLOOK

Looking ahead, Merchant Finance will continue to aggressively pursue the improvements of its products and services for the satisfaction of the evolving demands of customers and the intensifying competition of the Financial Markets.

In the up-coming financial year more emphasis will be placed on target marketing by industry base with tailor-made financial solutions to suit their needs. This will definitely boost economic development and most importantly boost the personal development for our loyal customers. The Strategic Plan in place ensures that Merchant Finance continue to play a pivotal role in providing financial services in Fiji.

CONCLUSION

2015 financial year was a successful year for Merchant Finance despite the challenges. We achieved our financial targets and made very good progress with strategy implementation and laid a strong foundation for the upcoming year.

As I reflect on the last 12 months, I must give credit to all staffs for their dedication and tireless contributions to deliver this year's strong performance results. I also extend my gratitude to the Chairman and Directors of the Board for their perceptive business advice, continuous wise counsel and support for another milestone success. Additionally, I thank our customers for their confidence in our company, our people and our products.

Merchant Finance is committed to its strategic targets and is well on course to continue implementing strategies and delivering first-rated performance to achieve many more milestones.

God bless Merchant Finance.

Napolioni Batimala
Chief Executive Officer

OUR CUSTOMERS

Merchant Finance & Investment Company Limited

FINANCIAL STATEMENTS

Year Ended 30 June 2015

Directors' Report

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of Merchant Finance & Investment Company Limited (the "Company") as at 30 June 2015 and the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

DIRECTORS

The names of directors in office at the date of this report and at any time during the financial year and up until the date the financial statements were authorised for issue are as follows:

Director's Name	Appointed	Resigned
Isikeli Tuituku (Chairperson)	10/09/2014	Current
Nouzab Fareed	19/05/2010	Current
Robin Yarrow	10/09/2014	Current
Joe Taoi	10/09/2014	Current
Emitai Boladuadua	10/09/2014	Current
Elenoa Lalabalavu	03/09/2013	Current
Sowani Tuidrola	03/09/2013	Current
Apakuki Kurusiga (Chairperson)	12/02/2013	10/09/2014
Mereia Volavola	12/02/2013	10/09/2014
Aseri Radrodro	27/01/2014	10/09/2014
Sefanaia Rayawa	12/02/2013	10/09/2014

STATE OF AFFAIRS

In the opinion of the directors, the accompanying statement of financial position gives a true and fair view of the state of affairs of the Company as at 30 June 2015 and the accompanying statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows of the Company for the year then ended.

TRADING RESULTS

The operating profit after income tax expense for the year ended 30 June 2015 was $8,070,097 (2014: $7,860,231).

DIVIDENDS

A final dividend of $6,900,000 (at the rate of $0.58 per share) in respect of the 2014 financial year was declared during the 2014 financial year of which $980,000 was paid during the 2014 financial year, $2,000,000 was reinvested into share capital and the balance of $3,920,000 was paid during the 2015 financial year. The Company declared an interim dividend of $3,100,000 (at the rate of $0.26 per share) in respect of the 2015 financial year and this was paid during the year ended 30 June 2015. A final dividend of $20,100,000 (at the rate of $0.76 per share) was declared on 30 June 2015 of which $14,500,000 was reinvested into share capital. Refer also to note 23.

RESERVES

The directors do not recommend any other transfers to or from reserves and retained earnings in the 2015 financial year other than a transfer of $621,000 from retained earnings to the credit loss reserve to comply with the requirements of the Reserve Bank of Fiji.

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was providing finance for asset purchases, granting of personal loans, acceptance of term deposits and acting as insurance agent for New India Assurance Company Ltd.

Directors' Report *- cont'd*

CURRENT ASSETS

The directors took reasonable steps before the Company's financial statements were made out to ascertain that the current assets of the Company were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of business.

At the date of this report, the directors are not aware of any circumstances which would render the values attributable to the current assets in the financial statements to be misleading.

RECEIVABLES

The directors took reasonable steps before the Company's financial statements were made out to ascertain that all known bad debts were written off and adequate allowance was made for impairment losses.

At the date of this report, the directors are not aware of any circumstances which would render the above assessment inadequate to any substantial extent.

RELATED PARTY TRANSACTIONS

All related party transactions have been adequately recorded in the financial statements.

OTHER CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which would render any amounts stated in the accounts to be misleading.

UNUSUAL CIRCUMSTANCES

The results of the Company's operations during the financial year have not in the opinion of the directors, been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

DIRECTORS' INTERESTS

No director of the Company has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in the Company's financial statements) by reason of a contract made with the Company or a related corporation with the director or with a firm of which he/she is a member, or in a company in which he/she has a substantial financial interest.

Dated at Suva this 7th day of August 2015.

Signed in accordance with a resolution of the Directors.

R. W. Yarrow.

Director

Director

Statement by Directors

In the opinion of the directors of Merchant Finance & Investment Company Limited:

a) the accompanying statement of profit or loss and other comprehensive income of the Company is drawn up so as to give a true and fair view of the results of the Company for the year ended 30 June 2015;

b) the accompanying statement of changes in equity of the Company is drawn up so as to give a true and fair view of the changes in equity of the Company for the year ended 30 June 2015;

c) the accompanying statement of financial position of the Company is drawn up so as to give a true and fair view of the state of affairs of the Company as at 30 June 2015;

d) the accompanying statement of cash flows of the Company is drawn up so as to give a true and fair view of the cash flows of the Company for the year ended 30 June 2015;

e) at the date of this statement there are reasonable grounds to believe the Company will be able to pay its debts as and when they fall due; and

f) all related party transactions have been adequately recorded in the books of the Company.

Dated at Suva this 7th day of August 2015.

Signed in accordance with a resolution of the Directors.

Director

Director

Independent Auditor's Report

TO THE MEMBERS OF MERCHANT FINANCE & INVESTMENT COMPANY LIMITED

We have audited the accompanying financial statements of Merchant Finance & Investment Company Limited, which comprise the statement of financial position as at 30 June 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows the year then ended, and a summary of significant accounting policies and other explanatory information as set out in notes 2 to 26.

Directors' and Management's Responsibility for the Financial Statements

Directors and Management are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as the directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Merchant Finance & Investment Company Limited as at 30 June 2015 and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations, which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
In our opinion,

i) proper books of account have been kept by the Company, so far as it appears from our examination of those books;
ii) the financial statements are in agreement with the books of account; and
iii) to the best of our information and according to the explanations given to us the financial statements give the information required by the Banking Act 1995 and Fiji Companies Act, 1983 in the manner so required.

7, August
Suva, Fiji
2015

KPMG
KPMG
Chartered Accountants

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2015

	Note	2015 $	2014 $
Interest income	2	18,903,920	19,215,369
Interest expense	3	(3,401,312)	(3,893,741)
Net interest income		15,502,608	15,321,628
Fee and other income	4	848,972	1,150,987
Loan impairment expenses	5	(820,708)	(1,029,286)
Personnel expenses	6	(2,489,789)	(2,368,466)
Depreciation, impairment and amortisation		(563,538)	(594,891)
Other expenses	7	(2,453,970)	(2,661,857)
Operating profit before income tax		10,023,575	9,818,115
Income tax expense	8 (a)	(1,953,478)	(1,957,884)
Profit for the year		8,070,097	7,860,231
Other comprehensive income		-	-
Total comprehensive income for the year		8,070,097	7,860,231

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 24 to 42.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	Share capital $	Credit loss reserve $	Retained earnings $	Total $
Balance at 1 July 2013	10,000,000	2,254,936	21,760,885	34,015,821
Total comprehensive income for the year				
Profit	-	-	7,860,231	7,860,231
Total other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	7,860,231	7,860,231
Transactions with owners of the Company, recognised directly in equity				
Contributions by and distributions to owners of the Company				
Interim dividend declared and paid ($0.19 per share) in respect of 2014 financial year	-	-	(2,300,000)	(2,300,000)
Final dividend declared ($0.58 per share) in respect of 2014 financial year	-	-	(6,900,000)	(6,900,000)
Issue of ordinary shares (Note 18)	2,000,000	-	-	2,000,000
Total contributions by and (distributions to) owners of the Company	2,000,000	-	(9,200,000)	(7,200,000)
Balance at 30 June 2014	12,000,000	2,254,936	20,421,116	34,676,052
Balance at 1 July 2014	12,000,000	2,254,936	20,421,116	34,676,052
Total comprehensive income for the year				
Profit	-	-	8,070,097	8,070,097
Other comprehensive income		-	-	-
Total comprehensive income for the year	-	-	8,070,097	8,070,097
Transactions with owners of the Company, recognised directly in equity				
Contributions by and distributions to owners of the Company				
Interim dividend declared and paid ($0.26 per share) in respect of 2015 financial year	-	-	(3,100,000)	(3,100,000)
Final dividend declared ($0.76 per share) in respect of 2015 financial year	-	-	(20,100,000)	(20,100,000)
Transfer from retained earnings		621,000	(621,000)	-
Issue of ordinary shares (Note 18)	14,500,000	-	-	14,500,000
Total contributions by and (distributions to) owners of the Company	14,500,000	621,000	(23,821,000)	(8,700,000)
Balance at 30 June 2015	26,500,000	2,875,936	4,670,213	34,046,149

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 24 to 42.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	2015 $	2014 $
Assets			
Cash and cash equivalents	9	5,421,826	26,180,315
Held-to-maturity investments	11	20,753,296	9,501,272
Other assets	12	423,737	297,557
Loans and advances to customers	10 (a)	101,375,512	101,240,352
Current tax asset	8 (b)	8,869	103,558
Assets held for sale	21	450,000	450,000
Property, plant and equipment	16	2,910,891	3,100,395
Intangible assets	17	-	1,112
Deferred tax asset	8 (c)	913,333	1,060,108
Total assets		132,257,464	141,934,669
Liabilities			
Deposits from customers	14	90,013,319	100,735,216
Other liabilities	13	7,828,884	6,156,182
Employee entitlements	15	369,112	367,219
Total liabilities		98,211,315	107,258,617
Shareholders' equity			
Share capital	18	26,500,000	12,000,000
Credit loss reserve	19	2,875,936	2,254,936
Retained earnings		4,670,213	20,421,116
Total shareholders' equity		34,046,149	34,676,052
Total liabilities and equity		132,257,464	141,934,669
Commitments and contingent liabilities	20		

Signed on behalf of the Board

R. W. Johnson.

Director : **Director :**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 24 to 42.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

	Note	2015 $	2014 $
Cash flows from operating activities			
Interest received from loans and advances		18,102,885	18,064,186
Interest paid on deposits from customers		(3,016,446)	(3,444,442)
Interest received from short term deposits and investments		801,035	688,847
Other income		813,583	1,459,186
Payment to suppliers and employees		(5,459,896)	(4,754,635)
Net (increase) in loans and advances		(955,869)	(2,683,733)
Net increase (decrease) in deposits		(10,721,897)	(2,913,562)
Income taxes paid	8 (b)	(1,712,014)	(2,097,271)
Net cash (used)/provided by operating activities		(2,148,619)	4,318,576
Cash flows from investing activities			
Payment for property, plant and equipment		(373,232)	(1,027,726)
Proceeds from sale of property, plant and equipment		35,386	150,300
Proceeds from sale of available for sale assets		-	2,155,000
Net cash (used)/provided by investing activities		(337,846)	1,277,574
Cash flows from financing activities			
Net movement in investment securities		(11,252,024)	2,000,564
Dividends paid		(7,020,000)	(5,600,000)
Net cash (used) by financing activities		(18,272,024)	(3,599,436)
Net (decrease)/increase in cash held		(20,758,489)	1,996,714
Cash and cash equivalents at beginning of financial year		26,180,315	24,183,601
Cash and cash equivalents at the end of financial year	9	5,421,826	26,180,315

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 24 to 42.

1 SIGNIFICANT ACCOUNTING POLICIES

Merchant Finance & Investment Company Limited is a licensed credit institution incorporated and domiciled in Fiji. The significant accounting policies, which have been adopted in the preparation of these financial statements, are noted below.

The financial statements were authorised for issue by the directors on 07/08/2015.

(a) Statement of compliance

The financial statements of the Company have been drawn up in accordance with the provisions of the Banking Act 1995, Fiji Companies Act 1983, and International Financial Reporting Standards ("IFRS").

(b) Basis of preparation

The financial statements are presented in Fiji dollars, rounded to the nearest dollar. The financial statements have been prepared based on historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets.
The accounting policies have been consistently applied and are consistent with those of the previous year.

(c) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for IFRS 9 Financial Instruments, which becomes mandatory for the Company's 2018 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements includes the following notes:

Note 1(h) – Loans and advances to customers
Note 1(p) – Employee entitlements – Long service leave

(e) Foreign currency

All foreign currency transactions are translated to Fiji currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling at balance date. Gains and losses arising on such translations are recognised in the result for the year.

(f) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1 SIGNIFICANT ACCOUNTING POLICIES (CONT)

(g) Property, plant and equipment

Acquisition
Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Profits and losses on disposal of plant and equipment are taken into account in determining the results for the year.

Depreciation and amortisation
Items of property, plant and equipment, including buildings but excluding freehold land, are depreciated using the straight-line method over their estimated useful lives. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

The depreciation rates used for each class of asset are as follows:

Computers	33.33%
Land and buildings	1.25%
Motor vehicle, plant, furniture and office machines	20% - 50%

(h) Loans and advances to customers

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money to a debtor with no intention of trading the loans and advances. The loans and advances are initially recognised at fair value plus transactions costs that are directly attributable to the issue of the loan and advance. They are subsequently measured at amortised costs using the effective interest rate method.

Impairment of Loans and Advances
Loans and advances are reviewed at each reporting date for impairment. Credit impairment provisions are raised for exposures that are known to be impaired. Loans and advances are recorded at the recoverable amount after ascertaining the required allowance for impairment. A loan is impaired when there is reasonable doubt that not all of the principal and interest can be collected in accordance with the terms of the loan agreement. Loan accounts are reviewed throughout the year to assess the need to create any impairment allowances for bad and doubtful debts that may have occurred. The impairment loss is the difference between the outstanding balance of the loan facilities and recoverable amount based on the collateral held by the Company. There are two components of the Company's impairment allowance assessment - individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
Individually assessed allowances are created to cover for identified doubtful debts arising from individual loan accounts which are impaired. The determination of the amount of individually assessed allowances is based on many factors including credit evaluation of the borrowers, value of collateral held, current economic conditions and past experience. Management monitors these individually assessed allowances on a monthly basis.

Collectively assessed allowances
Collectively assessed allowances are created at a rate of 2.5% on the loan balances to cover for the losses that may arise from loan accounts that are facing uncertainty within industries on which individual provisioning is not assessed. Management does a risk analysis on each individual industry taking into account the history of write-off, arrears and adjusted changes in market conditions and an appropriate risk factor is allocated based on this assessment. The risk factor assigned to each industry is monitored continuously against the fluctuation in market conditions and management's overall assessment is reviewed annually.

Impaired assets
The Company has disclosed, in Note 10, components of its loans and advances portfolio that have been classified as impaired assets. The following broad categories are used in classifying impaired assets:

Non-accrual finance receivables
Non-accrual finance receivables are those loans and advances facilities where income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest in accordance with the terms of the loan contract.

Past-due receivables
Past-due receivables are those facilities which have not been operated within their key terms by the borrower for at least thirty days and which are not non-accrual facilities.

1 SIGNIFICANT ACCOUNTING POLICIES (CONT)

(h) Loans and advances to customers - cont.

Bad debts

Bad debts are written off when identified. If an allowance for impairment has been categorised in relation to a loan, write-offs for bad debts are made against the allowance. If no allowance for impairment has previously been categorised, write-offs for bad debts are categorised as expenses in the profit or loss.

(i) Intangible assets

Intangible assets include costs incurred in acquiring software and computer systems ("software"). The proceeds from exploitation of the copyright in an audio visual production are brought to account when received in accordance with the copyright's related Investment Agreement.

Software is amortised using the straight-line method over its expected useful life to the Company. The period of amortisation is 5 years. At each reporting date, software assets are reviewed for impairment.

If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing value exceeds the recoverable amount, the difference is charged to profit or loss.

Costs incurred in planning or evaluating software proposals are capitalised. Costs incurred in maintaining systems after implementation are not capitalised.

(j) Cash and cash equivalents

Cash comprises of cash on hand, cash at bank and short term deposits.

(k) Other liabilities

Other liabilities are stated at their cost.

(l) Deposits from customers

Deposits from customers are stated at the gross value of the outstanding balance. Interest is taken to profit or loss on an accrual basis.

(m) Held-to-maturity investments

Held-to-maturity investments comprise government and semi government securities which the company has the positive intent and ability to hold to maturity. These are measured at cost (which equates to face value) less any impairment losses. Interest is taken to the profit or loss when receivable.

(n) Assets held for sale

Assets held for sale is stated at the lower of the carrying amount and fair value less costs to sell. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts.

(o) Recognition of expenses

(i) All expenses are brought to account on an accrual basis.
(ii) Losses on loans and receivables carried at amortised cost.

The charge recognised in the statement of comprehensive income for losses on loans and receivables carried at amortised cost, reflects the net movement in the provisions for individually assessed and collectively assessed loans, write-offs and recoveries of losses previously written off.
(iii) Leasing
Operating lease payments are recognised in the statement of comprehensive income as an expense on a straight-line basis over the lease term.

(p) Employee entitlements

Annual leave generally is taken within one year of entitlement and accordingly it is expected that a significant portion of the total annual leave balance will be utilised within the next financial year.

Long service leave - the entitlement is based upon the present value of future benefit payments to be made in respect of the employees' years of service.

Bonus is settled within 12 months of the financial year and is based on the performance of the Company and the achievement of the employees' individual objectives. Contracted employees are entitled to gratuity payment after successful completion of their contract. Contractual payments mainly range from 10% - 20%.

MERCHANT FINANCE & INVESTMENT COMPANY LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

1 SIGNIFICANT ACCOUNTING POLICIES (CONT)

(q) Interest income

Interest income from loans and advances is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

(r) Impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

(s) Comparatives

Where necessary, amounts relating to prior years have been reclassified to facilitate comparison and achieve consistency in disclosure with current year amounts.

2. INTEREST INCOME

	2015 $	2014 $
Deposits with other financial institutions	172,349	54,591
Investment securities	628,686	634,256
Loans and advances	18,102,885	18,526,522
	18,903,920	19,215,369

3. INTEREST EXPENSE

	2015 $	2014 $
High Notes Deposits	3,399,886	3,892,339
Other	1,426	1,402
	3,401,312	3,893,741

4. FEE AND OTHER INCOME

	2015 $	2014 $
Credit related fees and commissions	343,044	224,558
Income received on loans previously written off	209,044	495,892
Repossession and auction administration fees	161,164	173,310
Gain on sale of property plant and equipment	35,383	154,137
Other fees	100,337	103,090
	848,972	1,150,987

5. LOAN IMPAIRMENT EXPENSES

	2015 $	2014 $
Decrease in impairment	(821,686)	(1,012,659)
Amounts written off directly to profit or loss during the year as uncollectible	1,642,394	2,041,945
	820,708	1,029,286

6. PERSONNEL EXPENSES

	2015 $	2014 $
Salaries and wages	1,994,684	1,845,647
Fiji National Provident Fund	174,442	153,285
Other staff costs	320,663	369,534
	2,489,789	2,368,466

The number of employees at the end of the financial year was 73 (2014: 62).

7. OTHER OPERATING EXPENSES

	2015 $	2014 $
Advertising expense	241,397	190,492
Directors fees and allowances	93,343	87,456
Donations	2,199	4,244
External audit fees	44,000	35,139
Internal audit fees	24,375	46,990
Management fees	124,200	110,400
Motor Vehicle Expense	162,190	213,880
Other Expenses	315,339	405,535
Premises expenses	823,208	781,792
Printing and stationary	169,459	183,534
Telecommunication expenses	203,913	244,651
Computer expenses	42,138	59,722
Legal cost	147,099	223,053
Insurance expense	61,110	74,969
	2,453,970	2,661,857

8. INCOME TAX

(a) Income tax expense

	2015 $	2014 $
Prima facie income tax expense calculated at 20% (2014: 20%) on the operating profit	2,004,715	1,963,623
Increase/ (decrease) in income tax expense due to:		
FNPF employer contribution	17,444	15,329
(Over) provision in prior years	(68,681)	(21,068)
	1,953,478	1,957,884
Total income tax expense is made up of:		
Deferred tax expense	146,775	196,938
Current income tax expense	1,870,304	1,780,500
(Over) provision in prior years	(63,601)	(19,554)
	1,953,478	1,957,884

Income tax expense (Contd)

(b) Current tax (asset)

	2015	2014
Movements during the year were as follows:		
Balance at beginning of year	(103,558)	232,767
Income tax paid	(1,712,014)	(2,097,271)
Current year's income tax expense	1,870,304	1,780,500
(Over) provision in prior years	(63,601)	(19,554)
Balance at end of year	(8,869)	(103,558)

(c) Deferred tax asset

	2015	2014
Allowance for doubtful debts	849,409	1,013,746
Property, plant and equipment	28,459	6,408
Employee entitlements	35,465	39,954
	913,333	1,060,108

9. CASH AND CASH EQUIVALENTS

	2015 $	2014 $
Cash at bank and on hand	3,851,485	10,612,064
Short term deposits	1,570,341	15,568,251
	5,421,826	26,180,315

The Company has a Standby Overdraft Facility of $4,000,000 (2014: $4,000,000) with the ANZ Bank. The facility is secured by a registered equitable mortgage over all the Company's assets and uncalled capital. As at year end, the facility remained unutilised (2014: $ Nil).

10. LOAN AND ADVANCES

(a) Individual customers

	2015 $	2014 $
Asset purchase loans	62,400,068	51,066,873
Personal loans	70,811,295	83,669,960
Gross loans and advances to customers	133,211,363	134,736,833
Less: Deferred revenue	(27,588,808)	(28,427,752)
	105,622,555	106,309,081
Less: Individually assessed allowance for impairment	(2,032,067)	(2,966,947)
Collectively assessed allowance for impairment	(2,214,976)	(2,101,782)
Net loans and advances	101,375,512	101,240,352

(b) Maturity analysis

	2015	2014
Not longer than 3 months	12,681,989	13,305,256
Longer than 3 and not longer than 12 months	36,310,783	34,632,549
Longer than 1 and not longer than 5 years	79,777,098	76,335,289
Longer than 5 years	4,441,493	10,463,739
	133,211,363	134,736,833

10. LOAN AND ADVANCES (CONT)

(c) (i) Impairment of loans and advances

Reconciliation of allowance for impairment on asset purchase loans is as follows:

	2015		2014	
	Individual allowance for impairment $	Collective allowance for impairment $	Individual allowance for impairment $	Collective allowance for impairment $
Balance as at 1 July	96,738	930,709	302,450	727,054
Increase / (decrease) in impairment allowances	331,814	216,443	209,920	203,655
Write-offs against provisions	(221,075)	-	(415,632)	-
Balance at 30 June	207,477	1,147,152	96,738	930,709

Reconciliation of allowance for impairment on personal loans is as follows:

	2015		2014	
	Individual allowance for impairment $	Collective allowance for impairment $	Individual allowance for impairment $	Collective allowance for impairment $
Balance as at 1 July	2,870,209	1,171,073	3,714,649	1,337,234
Increase / (decrease) in impairment allowances	146,729	(103,249)	498,766	(166,161)
Write-offs against provisions	(1,192,348)	-	(1,343,206)	-
Balance at 30 June	1,824,590	1,067,824	2,870,209	1,171,073

		2015 $	2014 $
(ii)	**Bad debts expenses**	1,642,394	2,041,945
(iii)	**Non -accrual loans**		
	Non-accrual loans	13,642,768	20,796,581
	Less: Individual allowance for impairment	(1,830,922)	(2,750,883)
		11,811,846	18,045,698
(iv)			
	Restructured Loans	6,329,412	1,445,425

11. HELD-TO-MATURITY INVESTMENTS

	2015 $	2014 $
Government securities	9,500,000	9,500,000
Short-term deposits	11,252,589	-
Add: unamortised premium	707	1,272
	20,753,296	9,501,272

11. HELD-TO-MATURITY INVESTMENTS (CONT)

In accordance with note 1(m), investment securities are classified as held to maturity investment and are stated at cost, adjusted for premium and/or discount.

Investment maturity analysis

	2015 $	2014 $
Longer than 3 and not longer than 12 months	11,253,296	1,272
Longer than 1 and not longer than 5 years	4,750,000	4,250,000
Longer than 5 years	4,750,000	5,250,000
	20,753,296	9,501,272

12. OTHER ASSETS

	2015 $	2014 $
Prepayments	113,204	93,283
Accrued income	240,306	97,574
Other receivables	70,227	106,700
	423,737	297,557

13. OTHER LIABILITIES

	2015 $	2014 $
Dividend payable (note 23)	5,600,000	3,920,000
Accrued expenses	155,472	192,090
Accrued interest on deposits from customers	1,562,264	1,177,398
Other	511,148	866,694
	7,828,884	6,156,182

14. DEPOSITS FROM CUSTOMERS

	2015 $	2014 $
High Notes term deposits	90,013,319	100,735,216
Maturity analysis		
Not longer than 3 months	12,129,135	18,402,488
Longer than 3 and not longer than 12 months	44,386,699	54,444,416
Longer than 1 and not longer than 5 years	30,207,067	22,734,579
Longer than 5 years	3,290,418	5,153,733
	90,013,319	100,735,216

15. EMPLOYEE ENTITLEMENTS

	2015 $	2014 $
Accrual for annual leave	106,940	136,835
Accrual for bonus	191,786	167,422
Accrual for gratuity	44,213	44,007

15. EMPLOYEE ENTITLEMENTS (CONT)

Accrual for long service leave	26,173	18,955
	369,112	367,219

16. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings $	Motor vehicles $	Office alterations $	Office furniture $	Office machine $	Work in Progress $	Total $
Cost							
Balance at 1 July 2013	1,417,652	1,219,700	632,052	457,380	1,294,109	155,124	5,176,017
Acquisitions	-	495,424	749	197,693	166,843	167,018	1,027,727
Disposals	-	(375,500)	(43,800)	-	(42,008)	(13,529)	(474,837)
Transfer (out)/in	-	-	-	-	-	-	-
Balance at 30 June 2014	1,417,652	1,339,624	589,001	655,073	1,418,944	308,613	5,728,907
Balance at 1 July 2014	1,417,652	1,339,624	589,001	655,073	1,418,944	308,613	5,728,907
Acquisitions	-	-	64,414	35,564	273,254	-	373,232
Transfer (out)/in	-	-	-	-	187,767	(187,767)	-
Disposals	-	(49,000)	-	-	(3,699)	-	(52,699)
Balance at 30 June 2015	1,417,652	1,290,624	653,415	690,637	1,876,266	120,846	6,049,440
Accumulated Depreciation							
Balance at 1 July 2013	788	652,238	581,824	284,382	1,009,505	-	2,528,737
Depreciation charge for the year	497	259,972	26,072	81,535	140,361	-	508,437
Disposals	-	(348,046)	(43,800)	-	(16,816)	-	(408,662)
Balance at 30 June 2014	1,285	564,164	564,096	365,917	1,133,050	-	2,628,512
Balance at 1 July 2014	1,285	564,164	564,096	365,917	1,133,050	-	2,628,512
Depreciation charge for the year	195	252,783	23,638	94,121	191,691	-	562,428
Disposals	-	(49,000)	-	-	(3,391)	-	(52,391)
Balance at 30 June 2015	1,480	767,947	587,734	460,038	1,321,350	-	3,138,549
Carrying amount							
At 1 July 2013	1,416,864	567,462	50,228	172,998	284,604	155,124	2,647,280
At 30 June 2014	1,416,367	775,460	24,905	289,156	285,894	308,613	3,100,395
At 30 June 2015	1,416,172	522,677	65,681	230,599	554,916	120,846	2,910,891

17. INTANGIBLE ASSETS

	2015 $	2014 $
F1 AVP Investment		
F1 AVP investment	-	1,150,538
Provision for FI AVP impairment	-	(1,150,536)
Net book value	-	2
Software costs		
Cost :		

17. INTANGIBLE ASSETS (CONT)

Balance at the beginning of the year	43,537	43,537
Acquisition	-	-
Balance at the end of the year	43,537	43,537
Accumulated amortisation :		
Balance at the beginning of the year	(42,427)	(35,974)
Amortisation charge for the year	(1,110)	(6,453)
Balance at the end of the year	(43,537)	(42,427)
Carrying amount :		
Balance at the beginning of the year	1,110	7,563
Balance at the end of the year	-	1,110
Total	-	1,112

Investments in movie productions have been valued at cost, which is the amount the company expects to recover from the exploitation of the copyright in accordance with the Production Investment Agreement. The amount was fully written off during the year.

18. SHARE CAPITAL

Authorised capital

	2015 $	2014 $
50,000,000 ordinary shares of $1 par value each (2014: 50,000,000 ordinary shares of $1 par value each)	50,000,000	50,000,000
Issued and paid up capital		
Balance at the beginning of the year	12,000,000	10,000,000
Dividend re-investment through special resolution on 8 April 2014	-	2,000,000
Dividend re-investment through special resolution on 8 April 2014 (effective August 2014)	3,000,000	-
Dividend re-investment through special resolution on 23 September 2014	8,000,000	-
Dividend re-investment through special resolution on 30 June 2015	3,500,000	-
Shares of $1 par value each, fully paid	26,500,000	12,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meetings. All shares rank equally with regard to the residual assets of the Company.

19. RESERVES

	2015 $	2014 $
Balance at the beginning of the year	2,254,936	2,254,936
Transfer from retained earnings	621,000	-
Balance at the end of the year	2,875,936	2,254,936

$621,000 (2014: Nil) was considered necessary to be transferred during the year to the Credit Loss Reserve from retained earnings pursuant to the requirements of the Reserve Bank of Fiji.

The Credit Loss Reserve is established at prudent levels for possible losses inherent in the loan portfolio which are not associated with any facility or amount. These are maintained in respect of all credit facilities outstanding which are not subject to individually assessed provision requirements. The Credit Loss Reserve is required to be held as an equity reserve through an appropriation of retained earnings.

20. COMMITMENTS AND CONTINGENT LIABILITIES

The company has entered into various lease agreements in respect of its office premises with both related parties and third parties. The lease agreements vary in length and date of commencement.

Total commitments for future lease rentals which have not been provided for in the accounts are as follows:

	2015 $	2014 $
Due not later than one year	229,424	289,615
Due later than one year but not later than 5 years	485,561	413,236
Due later than five years.	-	154,041
	714,985	856,892

b) **Commitments**

Commitments in respect of loans and approved credit commitments offered but not yet advanced as at balance date amounted to approximately $5,140,000. (2014: $7,978,000)

c) **Contingent liabilities**

Several actions have been instituted against the Company. The Company is defending these actions and in the directors' opinion, no material loss is expected to arise.

21. ASSETS HELD FOR SALE

	2015 $	2014 $
Land	530,000	530,000
Less: Provision for impairment	80,000	80,000
	450,000	450,000

Assets held for sale consist of land titles acquired from Western Wreckers Limited during May 2012 in exchange for debt forgiveness for loans and advances owed to the Company. Of the five land titles acquired, three were sold in 2013 for $2,155,000. Subsequent to balance date, the sale of one of the properties is in the process of settlement for $270,000; the other is currently the subject of a sale and purchase agreement. In accordance with the Banking Act 1995, the Reserve Bank of Fiji has granted the Company an extension until 13 November 2015 to dispose off the remaining properties.

22. RELATED PARTY TRANSACTIONS

Directors

The directors of the Company in office at any time during the year were:

Isikeli Tuituku
Apakuki Kurusiga- resigned 10/09/2014
Joe Taoi
Sefanaia Rayawa- resigned 10/09/2014
Sowani Tuidrola
Robin Yarrow
Aseri Radrodro- resigned 10/09/2014
Elenoa Lalabalavu
Nouzab Fareed
Mereia Volavola- resigned 10/09/2014
Emitai Boladuadua

Amounts paid to directors are disclosed below:

Identity of related parties

The Company's holding company is Fijian Holding Limited, a company incorporated in Fiji.

Loans to Directors

As at 30 June 2015, Nil (2014: $Nil) were outstanding from the directors. Any advances are made in the ordinary course of the Company's business, and are on normal commercial terms and conditions no more favorable than those which would have been adopted if dealing with the related parties at arms length in the same circumstances.

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22. RELATED PARTY TRANSACTIONS (CONT)

Transactions with related parties

	2015 $	2014 $
High notes issued		
FHL Properties Limited	752,513	752,513
FHL Stockbrokers Limited	45,262	225,262
Fiji Industries Limited	-	500,000
R B Patel Limited	100,000	-
FHL Fund Management Limited	200,000	600,000
Dividend payable		
Fijian Holdings Unit Trust	1,120,000	-
Fijian Holdings Limited	4,480,000	3,920,000
Other asset		
FHL Fund Management Limited	267	-
Dividend paid		
Fijian Holdings Limited	6,400,000	4,160,000
Fijian Holdings Unit Trust	620,000	1,440,000
Revenue		
Interest:		
FHL Logistics Limited	-	23,197
Service provider fees:		
FHL Logistics Limited	-	10,000
FHL Fund Management Limited	6,350	-
Other income:		
Fiji TV Limited	27,983	-
FHL Fund Management Limited	1,120	-
Expenses		
Rent:		
FHL Properties Limited	208,811	152,605
Interest:		
FHL Properties Limited	20,734	17,066
Fiji Industries Limited	-	14,521
FHL Fund Management Limited	20,482	22,020
Fijian Property Trust Company Limited Cyclone Reserve Account	-	7,387
Fijian Holdings Unit Trust	8,066	-
FHL Stockbrokers Limited	7,102	8,009

22. RELATED PARTY TRANSACTIONS (CONT)

Directors Allowance		
Fiji TV Limited	106	1,062
Fijian Holdings Limited	9,375	8,750
Directors Fees		
Fijian Holdings Limited	31,918	41,346
Facility Charges		
RB Patel Limited	4,200	-
FHL Properties Limited	21,600	50,718
Management fees		
Fijian Holdings Limited	124,200	110,400
Other expenses		
Basic Industries Limited	1,811	-
FHL Properties Limited	7,923	-
RB Patel Limited	5,508	-
FHL Fund Management	2,350	-
FHL Stockbrokers Limited	3,000	-

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

During the year the following persons were the executives identified as key management personnel, with the greatest authority and responsibility for the planning, directing and controlling the activities of the Company.

Name	Title	Appointment Date	
		Start	End
Napolioni Batimala	General Manager	01/10/2012	Current
Dineshwar Lal	Manager Suva	01/05/2013	Current
Bobby Ali	Manager Lautoka	04/06/2014	Current
Leonore Leweilovo	Assistant Manager Nadi	01/07/2013	16/12/2014
Leonore Leweilovo	Manager Nadi	16/12/2014	Current
Nilesh Chand	Manager Corporate	01/05/2013	09/04/2015
Bobby Dayal	Manager Nabua	01/05/2013	Current
Anil Prasad	Manager North	01/03/2012	Current
Semanta Naicker	Assistant Manager Credit	01/05/2013	16/12/2014
Semanta Naicker	Manager Credit	16/12/2014	Current
Pio Nataniela	Assistant Manager Finance & Administration	01/09/2013	16/12/2014
Pio Nataniela	Manager Finance & Administration	16/12/2014	Current
Alipate Radrodro	Team Leader Rural	13/09/2012	Current

22. RELATED PARTY TRANSACTIONS (CONT)

Key management personnel (Contd)

The aggregate compensation of the key management personnel is set out below:

	2015 $	2014 $
Short-term benefits	719,164	704,620
Termination benefits	-	2,028
	719,164	706,648

23. PROVISION FOR DIVIDENDS

	2015 $	2014 $
Dividends declared or paid by the Company are:		
Balance at the beginning of the year	3,920,000	2,320,000
Add: Final dividend declared during the year ($0.76 per share) (2014: $0.58)	20,100,000	6,900,000
Add: Interim dividend declared and paid during the year ($0.26 per share) (2014: $0.19)	3,100,000	2,300,000
Less: dividends reinvested as capital	(14,500,000)	(2,000,000)
Less: dividends paid	(7,020,000)	(5,600,000)
Balance at the end of the year	5,600,000	3,920,000

24. STATEMENT OF CASH FLOWS

Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank, cash on hand and short term deposits. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	2015 $	2014 $
Cash and cash equivalents	5,421,826	26,180,315

25. RISK MANAGEMENT DISCLOSURES

Introduction

The Company is committed to the management of risk to achieve sustainability of service to its customers, employment of its staff and profits to its shareholders and, therefore, takes on controlled amounts of risk when considered appropriate. The risk management framework is targeted at ensuring the Company maintains sufficient capital at a level, which equals or exceeds the minimum "Capital Adequacy Ratio" requirements prescribed by the Reserve Bank of Fiji.

The primary risks are those of credit, market (liquidity, funding, price, interest rate) and operational risk. The Company's risk management strategy is set by Executive Management and approved by the Board.

Implementation of risk management strategy and the day to day management of risk is the responsibility of the General Manager, supported by the executives of the Company.

The Risk and Compliance officer is responsible for monitoring compliance with the Company's risk management policies and procedures and for reviewing the risk management framework in relation to the risks faced by the Company. The Fijian Holdings Group also monitors compliance with the group's risk management policies and framework in relation to risks faced by each company in the group. The management team is assisted in these functions by an outsourced Internal Audit function, which undertakes both regular, and ad-hoc reviews of management controls and procedures, the results of which are reported directly to the Audit sub-committee of the Board.

25. RISK MANAGEMENT DISCLOSURES (CONT)

The Company's external auditors, KPMG, may also review parts of the Company's risk management framework that impact on significant aspects of the financial systems, but only to the extent necessary to form their audit opinion on the Company's annual results.

The following sections describe the risk management framework components:

Credit risk

The Company's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position.

Credit risk is the potential risk for loss arising from failure of a debtor to meet their contractual obligations. In order to manage credit risk, the Company closely monitors its existing customers to ensure that a debt service ratio greater than 1 and loan to value ratio of 85% is maintained and ensuring that all new customers go through a comprehensive credit screening, including a Data Bureau, check.

Furthermore, customer accounts are graded internally and all existing customers are categorised as excellent, good, satisfactory or limited. Further the individual accounts/customer groups are classified as Standard, Special Mention, Sub Standard, Doubtful and Loss for credit risk management purposes. All loans and advances are secured by collateral.

	2015 $	2014 $
Neither past due nor impaired	94,530,750	92,788,911
Past due but not impaired	29,558,590	26,949,630
Individually impaired	9,122,023	14,998,292
Gross loans and advances	133,211,363	134,736,833
Less: unearned revenue	(27,588,808)	(28,427,752)
Less: allowance for impairment	(4,247,043)	(5,068,729)
Net loans and advances	101,375,512	101,240,352

Management reviews all accounts at balance date and where necessary may also make provision as a prudent measure. Financial assets classified as past due but not impaired are further classified as Standard or special mention with arrears below 60 days. These accounts are closely monitored to ensure that they do not deteriorate further. Security inspections are undertaken on these accounts to verify the value of the collateral pledged. These assets are monitored by specialist collection teams on a daily basis and further monitored by management at each month end. Where necessary, management restructures these loans to enhance recovery.

Individually assessed loans are those that have arrears exceeding 60 days and/or those which in the view of management have a higher probability of failure in the near term beyond its control and where a loss is expected to arise.

Collateral

The Company employs a range of policies and practices to mitigate credit risk with the most common practice being the security collateral. The Company implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential and commercial properties.
- Hire Purchase Agreements and Bill of Sale over vehicles and machinery
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities and term deposits.

Longer-term finance and lending to corporate entities are generally secured. Revolving individual credit facilities for FHL Group staff (including MFIL)

25. RISK MANAGEMENT DISCLOSURES (CONT)

Collateral (Contd)

to a maximum of $2,000 are unsecured. In addition, in order to further minimise the potential for credit loss the Company will seek additional collateral from the counterparty once impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument.

If an account goes into arrears, a credit review is performed and the collateral value is reassessed by the Company's in-house credit officers or independent valuers.

Impairment and Provisioning Policies

Individually Assessed Provisions

Management undertakes an overall assessment of the loan portfolio and allocates a relative risk category to each loan based on repayment trend, arrears, industry performance, management and other available information including latest financials of its customers. Review of security is undertaken internally on a regular basis - annually for standard and special mention accounts and monthly to quarterly for doubtful, loss and substandard accounts. Where specialised items are taken as security, a special valuation is also undertaken.

The shortfall between the outstanding balance and net realisable value of security on accounts classified as doubtful or loss is fully provided for and 50% of the shortfall is provided for those classified as substandard accounts. Additional provision is provided for those customers where management believes that this provision may prove insufficient in the future. The provision for these three categories is classified as individually assessed. Management monitors these individually assessed allowances on a monthly basis.

Collectively Assessed Provisions

In addition, for accounts that are classified as standard and special mention, management undertakes an overall assessment of accounts making up these classifications within industries and allocates a relative percentage to cover for any shortfall which may arise.

Management undertakes a risk analysis on each individual industry taking into account the history of write-off, arrears and adjusted changes in market conditions and an appropriate risk factor is allocated based on this assessment (averaged amongst the industry). The risk factor assigned to each industry is monitored continuously against fluctuation in market conditions and management's overall assessment is reviewed annually.

Credit risk concentration

	2015		2014	
	Loans and advances	Collective Impairment allowance	Loans and advances	Collective Impairment allowance
Industry	(%)	(%)	(%)	(%)
Agriculture	8.59	6.95	8.91	7.05
Building and construction	17.96	16.94	22.01	20.90
Manufacturing	5.68	4.22	4.89	3.26
Mining and quarrying	0.98	1.16	1.03	0.08
Private individuals	12.37	14.06	12.19	14.70
Professional and business services	1.88	1.67	2.16	1.89
Transport, communication and storage	34.14	37.17	31.07	34.99
Wholesale, retail, hotels and restaurants	9.44	9.54	7.20	8.51
Others	8.96	8.29	10.54	8.62
Total	**100.00**	**100.00**	**100.00**	**100.00**

Credit concentration is determined based on the industry for which the loan is given.

25. RISK MANAGEMENT DISCLOSURES (CONTI)

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities. Prudent and careful management of the Company's liquidity position is essential in order to ensure that adequate funds are available to meet the Company's ongoing financial obligations. In order to comply with the Reserve Bank's requirement and the Banking Act 1995, the Company must hold as liquid deposits an amount equivalent to 10% of its total borrowed funds.

The Company ensures that the investment standalone is sufficient to meet the Unimpaired Liquid Assets Ratio requirements which are covered entirely by long term bonds.

The daily liquidity position is monitored. The key measure used by the Company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. Monthly maturity mismatch reports are prepared and analysed. Maturity reports of term deposits are actioned via pre-analysis (calling customer to determine status of re-investment) and the Board ALRM sub- committee is kept informed.

The Company further addresses its liquidity risk via a Letter of Comfort from its parent, Fijian Holdings Limited, pledging its support and assistance as required to ensure that the Company maintains capital and liquidity levels to enable it at all times to meet its obligations as and when due. The Company also has a finance facility of $4 million with ANZ Bank that is unutilised as at balance date.

The following analysis of financial liabilities is based on contractual terms and includes interest:

As at 30 June 2015	1 - 3 months $	4- 12 months $	1 - 5 years $	Over 5 Years $	Gross nominal outflow $	Carrying amount $
Deposits from customers	12,456,805	41,556,814	42,363,801	1,232,401	**97,609,821**	90,013,319
Other liabilities	7,828,884	-	-	-	**7,828,884**	7,828,884
Total Liabilities	**20,285,689**	**41,556,814**	**42,363,801**	**1,232,401**	**105,438,705**	**97,842,203**
As at 30 June 2015	**1 - 3 months $**	**4- 12 months $**	**1 - 5 years $**	**Over 5 Years $**	**Gross nominal outflow $**	**Carrying amount $**
Deposits from customers	25,262,676	38,565,573	40,570,153	6,236,957	**110,635,359**	100,735,216
Other liabilities	6,156,181	-	-	-	**6,156,181**	6,156,181
Total Liabilities	**31,418,857**	**38,565,573**	**40,570,153**	**6,236,957**	**116,791,540**	**106,891,397**

Liquidity exposure is measured by calculating the Company's Net Liquidity Gap and by comparing current ratios with targets. The Board ALRM monitors the Company's liquidity position by reviewing the following measures:
Target for Net Liquidity Gap expressed as a percentage of Liabilities:

	Less than 1 month	1 to <3 months	3 to <6 months	6 to <12	Over 12 months
Net Liquidity Gap as a % of Rate Sensitive Assets (not to exceed)	-5%	-7%	-10%	-20%	40%

Other Liquidity Ratios
In addition to the above, the Company uses the following ratios as benchmarks in monitoring its liquidity position.

Ratio	Target	Tolerance range
Cash Reserve	Minimum 8%	Not to fall below 5%
Liquid Assets/Total Deposits Ratio	20-25%	Not to fall below 20%
Liquid Asset/Total Assets Ratio	10-20%	Not to fall below 20%
Loans/Deposit Ratio	120-135%	Not to exceed 135%
Loans/Adjusted Deposit Ratio	100-120%	Not to exceed 120%
Unimpaired liquid asset requirement	Minimum 12%	Not to fall below 10%

25. RISK MANAGEMENT DISCLOSURES (CONT)

Market Risk

Market risk is the risk that changes in the market prices of, and regulatory policies on, interest rate, equity prices and credit spreads will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to limit market risk exposures within acceptable parameters, while optimising the return on risk.

The Company has undertaken a sensitivity analysis that measures the potential impact of either an instantaneous increase or decrease of 0.5 – 1.0% (50 – 100 basis points) in market interest rates with all other variables remaining constant on the following:

- Replacement costs of maturing borrowings
- New business on maturing loan book
- Interest rates on replacement of held to maturity instruments

The impact to the Company's income based on the amounts outstanding at balance date is estimated to be as follows:

	+50 Basis Points $	+100 Basis Points $	-50 Basis Points $	-100 Basis Points $
Impact on Profit (Change In TD Rate)	(128,949)	(257,897)	128,949	257,897
Impact on Profit (Change In Investment Rate)	176,878	202,289	126,056	100,645
Impact on Profit (Change In New Business Rate)	30,143	60,286	(30,143)	(60,286)

The following assumptions were made when calculating the above sensitivity analysis:

- No change in economic conditions
- Only those funds that are maturing will be replace and funding level is maintained at balance date level
- New Loans will be issued at levels similar to the portion that is expiring and total loan book will be maintained at Balance Date level
- New Rates will be applicable throughout the year.
- There will be no early termination of contracts
- Not all factors change at once.
- All investments will be reinvested
- No early withdrawal of investment

Interest Rate Risk

The principal risk to which investments and lending portfolios are exposed is the risk of loss from fluctuations in future cash flows or fair value of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits from re-pricing bonds. The Company is not subject to interest rate risk as all the assets and liabilities are at a fixed rate and no financial instruments are fair valued through the profit or loss.

The management of interest rate risk against interest rate gap limits is supplemented by management's regular monitoring of the sensitivity of the Company's financial assets and liabilities to various standard interest scenarios and market offerings.

Interest rate risk will be managed through: 1) investments; 2) loan pricing; and 3) deposit pricing. The Company always tries to maintain an interest spread that it believes is sufficient to cater for the risk it is taking and is above the cost of its funds and is sufficient to cover operating costs. Interest spread is monitored monthly and is submitted to RBF for monitoring purposes.

Interest rate is reviewed consistently against those offered in the market and revised where appropriate.
Below is a range of interest rates for the Company's loans and advances:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

25. RISK MANAGEMENT DISCLOSURES (CONT)

Industry	2015 %	2014 %
Agriculture	7-29	13-29
Building and construction	13-27	9-27
Manufacturing	13-26	13-26
Mining and quarrying	14-20	16-17
Private individuals	7-28	8-28
Professional and business services	13-27	13-24
Transport, communication and storage	7-27	12-27
Wholesale, retail, hotels and restaurants	7-27	13-27
Others	10-26	10-26

Capital Risk Management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders to maintain an optimal capital structure to reduce the cost of capital. In order to maintain the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the Reserve Bank of Fiji:
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the Company's business.

Capital adequacy and the use of regulatory capital are monitored daily by the Company's management, employing techniques based on the guidelines developed by the Basel Committee as implemented by the Reserve Bank of Fiji, for supervisory purposes.

The Reserve Bank of Fiji requires the Company to (a) hold at least 10% or more of its total holdings in liquid assets and (b) maintain a ratio of total regulatory capital to risk-weighted assets at or above 15%. The Company complied with these requirements during the year. The Company ensures that its capital adequacy ratio is above 20% as per its ALM policy.

In addition, the Company ensures that its dividend policy for any financial year is capped at a maximum of 85% of its free cash flow, that is, Profit after tax less all capital commitments. The Company also measures its General Reserve Credit Losses (GRCL) requirement on an annual basis and ensures that sufficient allocation is made for it.

26. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date, the Company is in the process of settlement of one of its two assets held for sale properties for $270,000 and the other property is currently subject over the sale and purchase agreement. Other than the event noted above, there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors and management, to affect significantly the operations of the company, the results of those operations or the state of affairs of the company in subsequent financial years.

MERCHANT FINANCE LTD

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